

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Peercy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Peercy and Gray, PSC, evaluated the Muhlenberg County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MUHLENBERG COUNTY FISCAL COURT

June 30, 2006

Peercy and Gray, PSC has completed the audit of the Muhlenberg County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$6,593,028 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,540,100 in its governmental activities as of June 30, 2006, with total net assets of \$6,510,618. In its enterprise fund, total net cash and cash equivalents were \$82,410 with total net assets of \$82,410. The fiscal court had total debt principal as of June 30, 2006 of \$13,119,723 with \$993,245 due within the next year.

Report Comment:

- Fiscal Court Paid Late Fees On Credit Card Payments

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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PEERCY AND GRAY, PSC

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Muhlenberg County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Muhlenberg County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muhlenberg County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2006, on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Fiscal Court Paid Late Fees On Credit Card Payments

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Peercy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
October 26, 2006

MUHLENBERG COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Rodney Kirtley	County Judge/Executive
David James	Magistrate
Harold Wester	Magistrate
Tommy Watkins	Magistrate
Daniel Bowles	Magistrate
Phillip O'Neal	Magistrate

Other Elected Officials:

Darris Russell	County Attorney
Willie Justice, Jr.	Jailer
Gaylan Spurlin	County Clerk
Janet Hearld	Circuit Court Clerk
Jerry Mayhugh	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner

Appointed Personnel:

Charles R. Lewis	County Treasurer
Linda Moore	Finance Officer

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MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,540,100	\$ 82,410	\$ 1,622,510
Assets Held For Resale	390,000		390,000
Total Current Assets	1,930,100	82,410	2,012,510
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	164,210		164,210
Land	1,922,585		1,922,585
Land Improvements	26,245		26,245
Buildings	14,162,384		14,162,384
Vehicles and Equipment	1,234,160		1,234,160
Infrastructure	190,657		190,657
Total Noncurrent Assets	17,700,241		17,700,241
Total Assets	19,630,341	82,410	19,712,751
LIABILITIES			
Current Liabilities:			
Short-term Lease-Purchase	390,000		390,000
Bonds Payable	510,000		510,000
Financing Obligations Payable	93,245		93,245
Total Current Liabilities	993,245		993,245
Noncurrent Liabilities:			
Bonds Payable	11,950,000		11,950,000
Financing Obligations Payable	176,478		176,478
Total Noncurrent Liabilities	12,126,478		12,126,478
Total Liabilities	13,119,723		13,119,723
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,970,518		4,970,518
Restricted		5,764	5,764
Unrestricted	1,540,100	76,646	1,616,746
Total Net Assets	\$ 6,510,618	\$ 82,410	\$ 6,593,028

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,020,522	\$ 277,433	\$ 987,169	\$ 730,225
Protection to Persons and Property	2,443,403	45,781	2,215,853	98,017
General Health and Sanitation	737,983		54,210	
Social Services	56,339			
Recreation and Culture	160,903			
Roads	1,753,790		2,223,584	
Debt Service	633,422			
Capital Projects	388,809			
Total Governmental Activities	10,195,171	323,214	5,480,816	828,242
Business-type Activities:				
Jail Canteen	466,313	444,276		
Total Business-type Activities	466,313	444,276		
Total Primary Government	\$ 10,661,484	\$ 767,490	\$ 5,480,816	\$ 828,242

General Revenues:

Taxes:
Real Property Taxes
Motor Vehicle Taxes
In Lieu of Taxes
Other Taxes
Excess Fees
Miscellaneous Revenues
Interest Received
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,025,695)	\$	\$ (2,025,695)
(83,752)		(83,752)
(683,773)		(683,773)
(56,339)		(56,339)
(160,903)		(160,903)
469,794		469,794
(633,422)		(633,422)
(388,809)		(388,809)
(3,562,899)		(3,562,899)
	(22,037)	(22,037)
	(22,037)	(22,037)
(3,562,899)	(22,037)	(3,584,936)
940,595		940,595
162,151		162,151
1,584,732		1,584,732
463,851		463,851
1,174,453		1,174,453
619,907		619,907
14,262	420	14,682
4,959,951	420	4,960,371
1,397,052	(21,617)	1,375,435
5,113,566	104,027	5,217,593
\$ 6,510,618	\$ 82,410	\$ 6,593,028

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Justice Center Corporation Construction Fund
ASSETS				
Cash and Cash Equivalents	\$ 296,086	\$ 130,754	\$ 46,617	\$ 19,856
Total Assets	<u>\$ 296,086</u>	<u>\$ 130,754</u>	<u>\$ 46,617</u>	<u>\$ 19,856</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 45,315	\$ 23,797	\$ 36,165	\$
Unreserved:				
General Fund	250,771			
Special Revenue Funds		106,957	10,452	
Capital Projects Fund				19,856
Debt Service Fund				
Total Fund Balances	<u>\$ 296,086</u>	<u>\$ 130,754</u>	<u>\$ 46,617</u>	<u>\$ 19,856</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
<u>\$ 1,046,787</u>	<u>\$ 1,540,100</u>
<u><u>\$ 1,046,787</u></u>	<u><u>\$ 1,540,100</u></u>
\$	\$ 105,277
	250,771
1,045,765	1,163,174
	19,856
<u>1,022</u>	<u>1,022</u>
<u><u>\$ 1,046,787</u></u>	<u><u>\$ 1,540,100</u></u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,540,100
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Assets Held For Resale are not Financial Resources and therefore are not reported in the funds.	390,000
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the funds.	20,625,840
Accumulated Depreciation	(2,925,599)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Short-term Lease, Bonds and Financing Obligations	(993,245)
Due In More Than One Year - Bonds and Financing Obligations	<u>(12,126,478)</u>
Net Assets Of Governmental Activities	<u><u>\$ 6,510,618</u></u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,542,600	\$	\$
In Lieu Tax Payments	1,584,732		
Excess Fees	1,174,453		
Licenses and Permits	23,997		
Intergovernmental	707,061	1,357,199	1,733,622
Charges for Services	277,433		45,781
Miscellaneous	173,091	384,770	62,046
Interest	4,128		1
Total Revenues	<u>5,487,495</u>	<u>1,741,969</u>	<u>1,841,450</u>
EXPENDITURES			
General Government	1,940,338		
Protection to Persons and Property	469,187		1,684,693
General Health and Sanitation	721,680		
Social Services	38,606		
Recreation and Culture	150,336		
Roads		1,338,094	
Debt Service	411,913	52,646	377,458
Capital Projects	375,605	680,421	11,863
Administration	981,007		371,136
Total Expenditures	<u>5,088,672</u>	<u>2,071,161</u>	<u>2,445,150</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>398,823</u>	<u>(329,192)</u>	<u>(603,700)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds		646,290	
Transfers From Other Funds	1,075,720	122,140	1,175,720
Transfers To Other Funds	(1,432,860)	(500,000)	(575,720)
Total Other Financing Sources (Uses)	<u>(357,140)</u>	<u>268,430</u>	<u>600,000</u>
Net Change in Fund Balances	41,683	(60,762)	(3,700)
Fund Balances - Beginning	254,403	191,516	50,317
Fund Balances - Ending	<u>\$ 296,086</u>	<u>\$ 130,754</u>	<u>\$ 46,617</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Justice Center Corporation Construction Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 1,542,600
		1,584,732
		1,174,453
		23,997
	2,511,176	6,309,058
		323,214
		619,907
187	9,946	14,262
187	2,521,122	11,592,223
	40,000	1,980,338
	134,500	2,288,380
		721,680
		38,606
		150,336
	302,823	1,640,917
	707,972	1,549,989
46,771	467,676	1,582,336
1,100	548,578	1,901,821
47,871	2,201,549	11,854,403
(47,684)	319,573	(262,180)
		646,290
1,077	135,000	2,509,657
	(1,077)	(2,509,657)
1,077	133,923	646,290
(46,607)	453,496	384,110
66,463	593,291	1,155,990
\$ 19,856	\$ 1,046,787	\$ 1,540,100

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

**MUHLENBERG COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	384,110
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Purchase of Asset Held for Resale		390,000
Disposal of Asset Held For Resale		(375,000)
Capital Outlay		1,178,527
Depreciation Expense		(420,716)

Internal Service Funds are used by management to charge the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with governmental activities.		(30,146)
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The issuance of debt provides current financial resources to Governmental Funds while lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Short Term Lease Purchase Proceeds		(390,000)
Financing Obligations Proceeds		(256,290)
Short Term Lease Payments		375,000
Financing Obligations Principal Payments		56,567
Bond Principal Payments		485,000

Change in Net Assets of Governmental Activities	\$	<u>1,397,052</u>
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MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 82,410	\$
Total Current Assets	<u>82,410</u>	<u></u>
Net Assets		
Restricted	\$ 5,764	\$
Unrestricted	76,646	<u></u>
Total Net Assets	<u><u>\$ 82,410</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Operating Revenues		
Canteen Receipts	\$ 210,020	\$
Inmate Accounts	216,512	
Reimbursements	5,376	1,009,554
Miscellaneous Revenues	195	
Total Operating Revenues	<u>432,103</u>	<u>1,009,554</u>
Operating Expenses		
Cost of Sales	196,807	
Jail Fees	98,729	
Vendor Commissary Sales	76,031	
Inmate Accounts	12,173	
Sales Tax	3,251	
Claims		802,385
Administrative		237,315
Other	57,491	
Total Operating Expenses	<u>444,482</u>	<u>1,039,700</u>
Operating Income (Loss)	<u>(12,379)</u>	<u>(30,146)</u>
Nonoperating Revenues (Expenses)		
Interest Income	420	
Inmate Pay From State	12,173	
Inmate Refunds	(21,831)	
Total Nonoperating Revenues (Expenses)	<u>(9,238)</u>	
Change In Net Assets	(21,617)	(30,146)
Total Net Assets - Beginning	104,027	30,146
Total Net Assets - Ending	<u>\$ 82,410</u>	<u>\$</u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 432,103	\$
Reimbursements		1,009,554
Cost of Sales	(272,838)	
Jail Fees	(98,729)	
Inmate Account	(12,173)	
Sales Tax	(3,251)	
Claims		(802,385)
Administrative		(237,315)
Other	(57,491)	
Net Cash Provided By Operating Activities	<u>(12,379)</u>	<u>(30,146)</u>
Cash Flows From Noncapital Financing Activities		
Inmate Pay From State	12,173	
Inmate Refunds on Accounts	(21,831)	
Net Cash Provided By Noncapital Financing Activities	<u>(9,658)</u>	
Cash Flows From Investing Activities		
Interest Earned	420	
Net Cash Provided By Investing Activities	<u>420</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	(21,617)	(30,146)
Cash and Cash Equivalents - July 1, 2005	<u>104,027</u>	<u>30,146</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 82,410</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (12,379)	\$ (30,146)
Total Cash Provided (Used) By Operating Activities	<u>\$ (12,379)</u>	<u>\$ (30,146)</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

MUHLENBERG COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Fund</u>
	<u>Jail Inmate Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 10
Total Assets	<u>10</u>
Liabilities	
Amounts Held In Custody For Others	<u>10</u>
Total Liabilities	<u>10</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Muhlenberg County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Muhlenberg County Justice Center Corporation

Fiscal Court has the authority to appoint a voting majority of the Justice Center Corporation's (Corporation) Board of Directors. Fiscal Court also has the ability to approve or modify the Corporation's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the Corporation. In addition, fiscal court is financially accountable for the Corporation, legally entitled to the Corporation's resources as well as legally obligated for the Corporation's debt. Financial information of the Justice Center Corporation is blended within Muhlenberg County's financial statements.

Muhlenberg County Elected Officials

Kentucky law provides for the election of the below officials from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Muhlenberg County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The primary government reports the governmental activities using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The governmental funds are accounted for on the modified cash basis and focus on the flow of current financial resources. Revenues are recognized when received and expenditures are recognized when paid.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Justice Center Corporation Construction Fund - The Justice Center Corporation Construction fund accounts for the activities of the Justice Center Corporation, a blended component unit of the county. The purpose of this fund is to account for the financial resources to be used for the acquisition or construction of major capital facilities. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Development Fund, Local Government Economic Assistance Fund, Rails to Trails Fund, Pennyrile Narcotics Drug Task Force Fund, Paradise Park Fund, and Justice Center Corporation Sinking Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Rails to Trails Fund, Pennyrile Narcotics Drug Task Force Fund, and Paradise Park Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Justice Corporation Sinking Fund is presented as a debt service fund. Debt Service Funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt Service is provided through annual transfers from the General Fund in the amount of the debt service requirements for the year.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

The proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. The Jail Canteen Fund is reported as an enterprise fund.

Health Insurance Fund - This fund accounts for the goods or services provided by one governmental department or agency to another. The Health Insurance Fund of the fiscal court is reported as an internal service fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Account - This fund accounts for funds received from inmates and held until inmate uses these funds.

Federal Medicaid Fund - This fund accounts for funds received from Medicaid and transferred to the Muhlenberg County Community Hospital. This fund had a 0 balance as of June 30, 2006.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Muhlenberg County Justice Center Corporation Construction Fund (Capital Projects Fund) and Muhlenberg County Justice Center Corporation Sinking Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payment to and from these funds annually and transfers are budgeted in the Jail Fund to comply with these requirements. The Governor's Office for Local Development does not require these funds to be budgeted.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Muhlenberg County Fiscal Court: Paradise Industrial Park and Bluegrass Crossing Industrial Park.

Note 2. Deposits

The primary government maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2006, all deposits of the county were covered by FDIC insurance or a properly executed collateral security agreement.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,922,585	\$	\$	\$ 1,922,585
Construction In Progress	93,838	70,372		164,210
Total Capital Assets Not Being Depreciated	<u>2,016,423</u>	<u>70,372</u>		<u>2,086,795</u>
Capital Assets, Being Depreciated:				
Buildings	14,782,111	458,240		15,240,351
Vehicles and Equipment	2,432,862	638,865		3,071,727
Land Improvements	18,140	11,050		29,190
Infrastructure	<u>197,777</u>			<u>197,777</u>
Total Capital Assets Being Depreciated	17,430,890	1,108,155		18,539,045
Less Accumulated Depreciation For:				
Buildings	(875,017)	(202,950)		(1,077,967)
Vehicles and Equipment	(1,624,674)	(212,893)		(1,837,567)
Land Improvements	(1,632)	(1,313)		(2,945)
Infrastructure	<u>(3,560)</u>	<u>(3,560)</u>		<u>(7,120)</u>
Total Accumulated Depreciation	<u>(2,504,883)</u>	<u>(420,716)</u>		<u>(2,925,599)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,926,007</u>	<u>687,439</u>		<u>15,613,446</u>
Governmental Activities Capital Assets, Net	\$ 16,942,430	\$ 757,811	\$	\$ 17,700,241

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 108,217
Protection to Persons and Property	155,023
General Health and Sanitation	16,303
Social Services	17,733
Recreation and Culture	10,567
Roads	<u>112,873</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 420,716</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt - Promissory Note

A. Line of Credit

In July 2005, Muhlenberg County signed a promissory note with Old National Bank in the amount of \$750,150 at 5.125% interest rate. During the fiscal year, the County borrowed \$750,150 in order to meet current operating expenses. The County repaid \$760,773, which included interest of \$10,623.

B. Leases - Trucks

On August 18, 2005, the Muhlenberg County Fiscal Court entered into a one-year lease purchase agreement with the Bank of New York for the purpose of purchasing trucks that would be placed in service for one year and then resold. The principal amount borrowed was \$390,000 with an interest rate of 3.4%. The agreement requires the payment of principal and interest at the end of the one-year lease.

Changes In Short-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Primary Government				
<u>Governmental Activities</u>				
Line Of Credit	\$	\$ 750,150	\$ 750,150	\$
Leases	375,000	390,000	375,000	390,000
Governmental Activities				
Short-term Liabilities	<u>\$ 375,000</u>	<u>\$ 1,140,150</u>	<u>\$ 1,125,150</u>	<u>\$ 390,000</u>

Note 5. Long-term Debt - Bonds

A. Detention Center

On January 19, 2000, the Muhlenberg County Fiscal Court issued \$6,895,000 General Obligation Improvement Bonds, Series 2000, for the construction of the Detention Center. These bonds are required to be paid fully within 20 years from the date of issue and are backed by the full faith and credit of the County. The bonds matured as to principal beginning August 1, 2002.

Bonds outstanding as of June 30, 2006 totaled \$6,010,000. Future principal and interest requirements are:

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt - Bonds (Continued)

A. Detention Center (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 250,000	\$ 328,778
2008	260,000	314,625
2009	280,000	299,640
2010	285,000	283,961
2011	300,000	267,728
2012-2016	1,785,000	1,058,741
2017-2021	2,305,000	489,860
2022	545,000	15,260
Totals	<u>\$ 6,010,000</u>	<u>\$ 3,058,593</u>

B. Justice Center

The Muhlenberg County Justice Center Corporation ('The Corporation') issued First Mortgage Revenue Bonds, Series 2002, on December 1, 2002. The purpose of this bond issue is for i) constructing a new judicial center for lease to the Administrative Office of the Courts; ii) capitalizing interest for twelve (12) months; iii) paying in full the outstanding loan between the County and Old National Trust Company; and iv) paying the costs of issuance of the bonds. The issue amount of the bonds was \$6,955,000.

The Corporation entered into a lease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC). The Corporation leases a portion of the Project Site and the Project, along with improvements thereon and to be constructed thereof, to AOC for an initial period from the occupancy date until June 30, 2024, at the agreed and stipulated rentals equal to the AOC use allowance. The maximum use allowance is set at \$556,700 per year. The rental amount is anticipated to be adequate to pay 100% of the net debt service on the bonds. On July 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years. Interest on the bonds is payable each March 1 and September 1. The bonds matured as to principal on September 1, 2005 and each September 1 thereafter. The interest rate on the bonds ranges from 1.55% to 4.60%.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt - Bonds (Continued)

B. Justice Center (Continued)

Bonds outstanding as of June 30, 2006 totaled \$6,450,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 260,000	\$ 252,920
2008	265,000	246,419
2009	275,000	238,783
2010	280,000	230,108
2011	290,000	220,483
2012-2016	1,635,000	926,005
2017-2021	2,010,000	553,269
2022-2024	1,435,000	100,138
Totals	<u>\$ 6,450,000</u>	<u>\$ 2,768,125</u>

Note 6. Long-term Debt - Financing Obligations

A. Waterline Lease

On November 12, 1992, the Muhlenberg County Fiscal Court entered into a 20-year capital lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for construction of waterlines. The principal amount borrowed was \$147,000 with an interest rate of 5.57%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2006, was \$61,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 9,000	\$ 3,737
2008	9,000	3,149
2009	10,000	2,535
2010	10,000	1,882
2011	11,000	1,202
2012	12,000	456
Totals	<u>\$ 61,000</u>	<u>\$ 12,961</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 6. Long-term Debt – Financing Obligations (Continued)

B. Gradall Loan

On November 3, 2005, the Muhlenberg County Fiscal Court entered into a 3-year loan agreement with the First National Bank for purchase of a Gradall. The principal amount borrowed was \$256,290 with an interest rate of 3.6%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2006, was \$208,723. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 84,245	\$ 6,006
2008	87,199	3,052
2009	37,279	336
Totals	<u>\$ 208,723</u>	<u>\$ 9,394</u>

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds (Note 5)	\$ 12,945,000	\$	\$ 485,000	\$ 12,460,000	\$ 510,000
Financing Obligations	70,000	256,290	56,567	269,723	93,245
Governmental Activities					
Long-term Liabilities	<u>\$ 13,015,000</u>	<u>\$ 256,290</u>	<u>\$ 541,567</u>	<u>\$ 12,729,723</u>	<u>\$ 603,245</u>

Note 7. Interest On Short-term Debt, Bonds, and Financing Obligation

Debt Service on the Statement of Activities includes \$24,120 in interest on short-term debt, \$600,430 in interest on bonds and \$8,872 in interest on financing obligations.

Note 8. Related Party Transactions

The Pennyriple Narcotics Task Force conducted business with 4th And Main Auto Sales, which is owned by Jason Blakely, who is the spouse of Lori Blakely, an employee of the Pennyriple Narcotics Task Force. During fiscal year ended June 30, 2006, the Pennyriple Narcotics Task Force paid \$927 to 4th And Main Auto Sales.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Related Party Transactions (Continued)

The Muhlenberg County Fiscal Court conducted business with Kirtley's Paint & Fantastic's Sporting Goods, which is owned by the Judge/Executives' brother. During fiscal year ended June 30, 2006, the Muhlenberg County Fiscal Court paid \$375 to Kirtley's Paint & Fantastic's Sporting Goods.

Note 9. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan benefits. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 10. Self Insurance

Muhlenberg County Fiscal Court elected to begin a partially self-funded health insurance plan as of May 1, 2003. This partially self-funded insurance plan covers all full-time employees. County employees are required to contribute \$15 per month and the County pays for the remainder of the County employee's individual coverage. As of May 1, 2005, County employees were required to choose between a \$750 and \$500 deductible and County employee contributions were \$15 or \$50 per month, respectively. The County also pays for one-half the cost for family coverage.

This partially self-funded insurance plan has two distinct components that the Fiscal Court must pay. The first component is fixed cost, which consists of administrative fees associated with operating of the plan and specific and aggregate reinsurance costs that cap the County's claims exposure on an individual and aggregate basis. Fixed costs for the fiscal year ending June 30, 2006 were \$237,315. The second component is claims cost. Muhlenberg County is responsible to pay all claims as they incur. Once an individual exceeds \$40,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the carrier. Claims for the fiscal year ended June 30, 2006 were \$802,385. Muhlenberg County Fiscal Court's contract with HCC Life Insurance has a terminal liability provision; this policy expired as of April 30, 2005. Beginning May 1, 2005, the Fiscal Court's contract is with United Healthcare Insurance Company and there is not a terminal liability provision. The Health Insurance Fund had a zero balance as of June 30, 2006.

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,533,300	\$ 1,533,300	\$ 1,542,600	\$ 9,300
In Lieu Tax Payments	1,500,000	1,500,000	1,584,732	84,732
Excess Fees	1,007,150	1,007,150	1,174,453	167,303
Licenses and Permits	37,000	37,000	23,997	(13,003)
Intergovernmental Revenue	620,200	620,200	707,061	86,861
Charges for Services	266,500	266,500	277,433	10,933
Miscellaneous	286,500	286,500	173,091	(113,409)
Interest	3,500	3,500	4,128	628
Total Revenues	<u>5,254,150</u>	<u>5,254,150</u>	<u>5,487,495</u>	<u>233,345</u>
EXPENDITURES				
General Government	2,136,940	2,221,240	2,129,225	92,015
Protection to Persons and Property	523,950	550,650	541,520	9,130
General Health and Sanitation	696,800	811,800	796,891	14,909
Social Services	46,000	54,000	49,656	4,344
Recreation and Culture	147,950	162,450	155,266	7,184
Debt Service	1,020,800	1,320,800	1,162,063	158,737
Capital Projects	50,000	50,000	23,044	26,956
Administration	1,299,750	1,031,250	981,007	50,243
Total Expenditures	<u>5,922,190</u>	<u>6,202,190</u>	<u>5,838,672</u>	<u>363,518</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(668,040)</u>	<u>(948,040)</u>	<u>(351,177)</u>	<u>596,863</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	1,000,000	1,000,000	750,000	(250,000)
Transfers From Other Funds			1,075,720	1,075,720
Transfers To Other Funds	<u>(697,860)</u>	<u>(697,860)</u>	<u>(1,432,860)</u>	<u>(735,000)</u>
Total Other Financing Sources (Uses)	<u>302,140</u>	<u>302,140</u>	<u>392,860</u>	<u>90,720</u>
Net Changes in Fund Balance	<u>(365,900)</u>	<u>(645,900)</u>	<u>41,683</u>	<u>687,583</u>
Fund Balance - Beginning	<u>365,900</u>	<u>365,900</u>	<u>254,403</u>	<u>(111,497)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (280,000)</u>	<u>\$ 296,086</u>	<u>\$ 576,086</u>

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,748,335	\$ 1,748,335	\$ 1,357,199	\$ (391,136)
Miscellaneous	10,000	394,220	384,770	(9,450)
Interest	1,000	1,000		(1,000)
Total Revenues	1,759,335	2,143,555	1,741,969	(401,586)
EXPENDITURES				
Roads	1,931,475	1,915,695	1,424,871	490,824
Total Expenditures	1,931,475	1,915,695	1,424,871	490,824
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(172,140)	227,860	317,098	89,238
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	122,140	122,140	122,140	
Transfers To Other Funds			(500,000)	(500,000)
Total Other Financing Sources (Uses)	122,140	122,140	(377,860)	(500,000)
Net Changes in Fund Balance	(50,000)	350,000	(60,762)	(410,762)
Fund Balance - Beginning	50,000	50,000	191,516	141,516
Fund Balance - Ending	\$ 0	\$ 400,000	\$ 130,754	\$ (269,246)

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,640,000	\$ 1,640,000	\$ 1,733,622	\$ 93,622
Charges for Services	32,000	32,000	45,781	13,781
Miscellaneous	72,500	72,500	62,046	(10,454)
Interest			1	
Total Revenues	<u>1,744,500</u>	<u>1,744,500</u>	<u>1,841,450</u>	<u>96,949</u>
EXPENDITURES				
Protection to Persons and Property	1,692,620	1,737,320	1,696,556	40,764
Debt Service	209,600	377,458	377,458	
Administration	418,000	373,300	371,136	2,164
Total Expenditures	<u>2,320,220</u>	<u>2,488,078</u>	<u>2,445,150</u>	<u>42,928</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(575,720)</u>	<u>(743,578)</u>	<u>(603,700)</u>	<u>139,877</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	575,720	575,720	1,175,720	600,000
Transfers To Other Funds			(575,720)	(575,720)
Total Other Financing Sources (Uses)	<u>575,720</u>	<u>575,720</u>	<u>600,000</u>	<u>24,280</u>
Net Changes in Fund Balance		(167,858)	(3,700)	164,158
Fund Balance - Beginning			50,317	50,317
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (167,858)</u>	<u>\$ 46,617</u>	<u>\$ 214,475</u>

MUHLENBERG COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation to the General Fund:

Total Expenditures-Budgetary Basis	\$ 5,838,672
Short-term Borrowings for Operating Expenses	(750,000)
Total Expenditures-Modified Cash Basis	<u>\$ 5,088,672</u>

Other Financing Sources (Uses)-Budgetary Basis	\$ 392,860
Short-term Borrowings for Operating Expenses	(750,000)
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (357,140)</u>

3. Reconciliation to the Road Fund:

Total Expenditures-Budgetary Basis	\$ 1,424,871
Purchase of Assets	646,290
Total Expenditures-Modified Cash Basis	<u>\$ 2,071,161</u>

Other Financing Sources (Uses)-Budgetary Basis	\$ (377,860)
Financing Obligation Proceeds	646,290
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 268,430</u>

**MUHLENBERG COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

**MUHLENBERG COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

	Local Government Economic Assistance Fund	Local Government Economic Development Fund	Rails to Trails Fund	Pennyrile Narcotics Drug Task Force Fund	Paradise Park Fund
ASSETS					
Cash and Cash Equivalents	\$ 395,237	\$ 460,825	\$ 93,064	\$ 96,581	\$ 58
Total Assets	<u>\$ 395,237</u>	<u>\$ 460,825</u>	<u>\$ 93,064</u>	<u>\$ 96,581</u>	<u>\$ 58</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	\$ 395,237	\$ 460,825	\$ 93,064	\$ 96,581	\$ 58
Debt Service Fund					
Total Fund Balances	<u>\$ 395,237</u>	<u>\$ 460,825</u>	<u>\$ 93,064</u>	<u>\$ 96,581</u>	<u>\$ 58</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2006
(Continued)

Justice Center Corporation Sinking Fund	Total Non-Major Governmental Funds
<u>\$ 1,022</u>	<u>\$ 1,046,787</u>
<u><u>\$ 1,022</u></u>	<u><u>\$ 1,046,787</u></u>
<u>\$ 1,022</u>	<u>\$ 1,045,765</u>
<u><u>\$ 1,022</u></u>	<u><u>\$ 1,046,787</u></u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Local Government Economic Assistance Fund	Local Government Economic Development Fund	Rails to Trails Fund	Pennyrile Narcotics Drug Task Force Fund
REVENUES				
Intergovernmental	\$ 866,385	\$ 495,000	\$	\$ 580,248
Interest	3,188	6,413		272
Total Revenues	<u>869,573</u>	<u>501,413</u>	<u></u>	<u>580,520</u>
EXPENDITURES				
General Government	40,000			
Protection to Persons and Property	134,500			
Roads	302,823			
Debt Service	194,640			
Capital Projects		413,451	15	
Administration				548,578
Total Expenditures	<u>671,963</u>	<u>413,451</u>	<u>15</u>	<u>548,578</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>197,610</u>	<u>87,962</u>	<u>(15)</u>	<u>31,942</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				
Transfers From Other Funds	75,000			60,000
Total Other Financing Sources (Uses)	<u>75,000</u>	<u></u>	<u></u>	<u>60,000</u>
Net Change in Fund Balances	272,610	87,962	(15)	91,942
Fund Balances - Beginning	122,627	372,863	93,079	4,639
Fund Balances - Ending	<u>\$ 395,237</u>	<u>\$ 460,825</u>	<u>\$ 93,064</u>	<u>\$ 96,581</u>

MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Paradise Park Fund	Justice Center Corporation Sinking Fund	Total Non-Major Governmental Funds
\$ 54,210	\$ 515,333	\$ 2,511,176
	73	9,946
<u>54,210</u>	<u>515,406</u>	<u>2,521,122</u>
		40,000
		134,500
		302,823
	513,332	707,972
54,210		467,676
		548,578
<u>54,210</u>	<u>513,332</u>	<u>2,201,549</u>
	2,074	319,573
	(1,077)	(1,077)
		135,000
	<u>(1,077)</u>	<u>133,923</u>
	997	453,496
58	25	593,291
<u>\$ 58</u>	<u>\$ 1,022</u>	<u>\$ 1,046,787</u>

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MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2006

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expressed unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Muhlenberg County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Muhlenberg County expresses an unqualified opinion.
6. There was one audit finding relative to the major federal awards programs for Muhlenberg County reported in Part C of this schedule.
7. The program tested as a major program was: Byrne Formula Grant – Pennyrile Narcotics Task Force.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Muhlenberg County was determined not to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

2006-1 Fiscal Court Paid Late Fees On Credit Card Payments

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

2006-1 Fiscal Court Paid Late Fees On Credit Card Payments

Federal Program: CFDA 16.579 Byrne Formula Grant
 Federal Agency: U.S. Department of Justice
 Pass-Through Agency: Kentucky State Justice Cabinet
 Compliance Area: Activities Allowed/Unallowed
 Amount of questioned cost: \$595

During the course of our testing, we noted that many invoices were paid past the due date, especially for the Pennyrile Narcotics Task Force (PNTF). Payments for credit cards used by the employees of the PNTF included \$595 in late fees.

We recommend that the county make every effort to pay all bills by the due date to avoid late fees.

Judge/Executive Rodney Kirtley's Response: There is a time factor between entity getting bills approved and submitting to Treasurer to be paid. Also, State of Kentucky holds payments for months before remitting to Treasurer. Treasurer prefers not to transfer money from another fund. We will work on this delay problem and try to eliminate delinquent payments.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006**

D. PRIOR YEAR FINDINGS

Prior Year Comments:

Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This comment was not repeated for 2006.

MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2006

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
 <u>U.S. Department of Housing and Urban Development</u>		
Community Planning and Development (CFDA #14.246)	B-01-SP-KY-0735	\$ 54,210
 <u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Byrne Formula Grant (CFDA #16.579)	5004-D-1-05	236,120
	5079-D-1/05	20,092
	ODCP-1003-D/05	83,556
Total U.S. Department Of Justice		339,768
 <u>U.S. Election Assistance Commission</u>		
Sections 251-258 Requirement Payments to States Voting Machine Upgrade Transportation Enhancement Grant (CFDA #20.205)	Unavailable	163,225
 <u>U.S. Department Of Homeland Security</u>		
Passed Through State Governor's Office of Homeland Security- State Domestic Preparedness Program (CFDA # 97.004)	M-04564126	40,507
Total Expenditures of Federal Awards		<u>\$ 597,710</u>

MUHLENBERG COUNTY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Muhlenberg County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 26, 2006. Muhlenberg County presents its financial statements on the modified basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muhlenberg County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

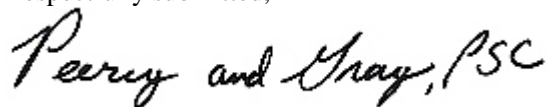
As part of obtaining reasonable assurance about whether Muhlenberg County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of material noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs:

2006-1 Fiscal Court Paid Late Fees On Credit Card Payments

Report On Internal Control Over Financial Reporting
And Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
October 26, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Muhlenberg County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Muhlenberg County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muhlenberg County's management. Our responsibility is to express an opinion on Muhlenberg County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muhlenberg County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Muhlenberg County's compliance with those requirements.

In our opinion, Muhlenberg County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as follows:

2006-1 Fiscal Court Paid Late Fees On Credit Card Payments

Internal Control Over Compliance

The management of Muhlenberg County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muhlenberg County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
October 26, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

MUHLENBERG COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

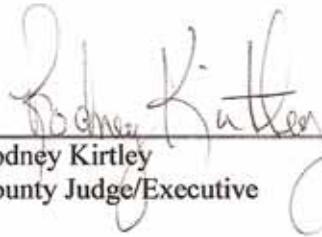
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

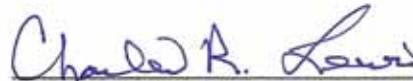
MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Rodney Kirtley
County Judge/Executive



Charles R. Lewis
County Treasurer